

MEMORANDUM

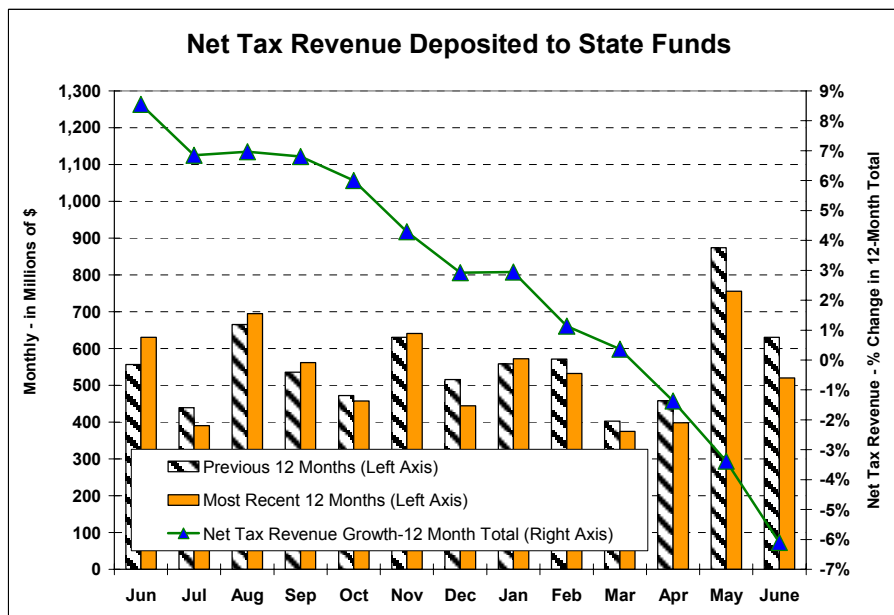
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: July 17, 2009

Twelve-month Total Net Tax Receipts Through June 30, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending June 2009 with comparisons to the previous 12 months. June 2008 to June 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of June Comparison

June net tax receipts totaled \$519.8 million, a decrease of \$111.3 million (- 17.6%) compared to June 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$31.5 million, - 13.5%) – Gross income tax receipts decreased \$23.6 million in June. All three components, withholding payments, payments with tax returns and quarterly estimate payments were down compared to June 2008. Income tax refunds were \$7.9 million higher for the month. Monthly year-over-year negative net income tax growth is rare, with only eleven instances over the past 49 months. Seven of those instances occurred over the past nine months.
- Corporate Income Tax (negative \$19.7 million, - 32.9%) – Gross receipts decreased \$10.6 million and refunds increased \$9.1 million.
- Sales/Use Tax (negative \$16.8 million, - 9.6%)
 - Road Use Tax Fund use tax and fees for new registrations decreased \$5.3 million.
 - General Fund sales/use tax receipts increased \$19.5 million and refunds issued for the month increased \$31.0 million (net decrease of \$11.5 million). The large increases in gross receipts and in refunds are related to the recently-enacted statewide sales/use tax increase for school infrastructure coupled with the elimination of the local option sales tax for school infrastructure. This change boosts State sales/use tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (negative \$24.7 million, - 35.9%) – Gross fuel tax revenue decreased \$26.3 million while refunds processed in the month decreased \$1.6 million. The large decrease was due to a calendar event in 2008 where two monthly deposits occurred in June 2008. The issue will reverse in July.
- Cigarette & Tobacco Taxes (negative \$3.4 million, - 14.5%) – The cigarette tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. In addition, Iowa banned smoking in most public indoor locations effective July 1, 2008. Monthly cigarette and tobacco tax deposits have decreased at least 6.4% in each of the past six months. A \$0.62 per pack federal tax increase, effective April 1, 2009, is providing additional downward pressure on sales.
- Gambling Taxes (negative \$0.3 million, - 1.3%)

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending June 2009, net revenue from all taxes deposited to State funds totaled \$6.341 billion, a decrease of \$411.8 million (- 6.1%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$134.5 million, - 4.7%) – The rate of individual income tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% year-over-year. The processing of tax year 2008 returns over the past three months accelerated the decrease. Withholding payments to the State increased \$56.2 million over the past 12 months. Of that increase, \$13.2 million was transfers of withholding from unemployment payments and \$8.6 million was transfers from State payroll and retirement funds. This leaves only \$36.4 million in growth for the year from private sector and public sector employees not part of the State accounting system. Over the previous 12 months (ending June 2008), that amount was \$161.3 million.
- Corporate Tax (negative \$120.8 million, - 32.5%) – Net corporate income tax totaled \$251.1 million for the 12 months ending June 2009. The 12-month total peaked in June 2008 at

\$371.9 million. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough.

- Sales/Use Tax (negative \$56.5 million, - 2.5%) – Net sales/use tax receipts have been down six of the past seven months compared to the same month the previous year and the annual percent growth has fallen from positive 4.1% to negative 2.5% over that time.
- Fuel Tax (negative \$64.5 million, - 13.5%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of higher fuel prices through July 2008 and declining economic activity since then. About one-half of the \$64.5 million decline is due to a calendar issue that will reverse in July. According to Department of Revenue taxable gallons sales reports, over the most recent 12-month period Iowa gasoline/ethanol gallons sold decreased 0.8% while diesel sales were down 7.2%, the eight consecutive month showing a decline in annual diesel taxable sales.
- Gambling Tax (negative \$3.1 million, - 1.0%) – Despite a new Waterloo casino and expansion of the casinos in Clinton and Dubuque, three changes providing boosts to year-over-year gambling growth, gambling tax revenue is now modestly negative year-over-year. According to Racing and Gaming Commission statistics, nine of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending May 2009. The AGR growth for all facilities was 0.01% over the past 12 months. Excluding the three new or expanded facilities, growth was negative 3.0%.
- Cigarette and Tobacco Tax (negative \$12.0 million, - 4.8%) – The second anniversary of the tax increase has passed and the tax increase no longer impacts the year-over-year growth calculation.
- Insurance Premium Tax (negative \$23.3 million, - 20.9%) – The insurance premium tax rate was reduced over multiple years and is now fully implemented. The lack of growth in insurance premium tax revenue may be the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as credits purchased from others.

Tax Spotlight – Sales and Use Tax

Sales of goods and services to the final user are taxed under the authority of Chapter 423, Code of Iowa. The sale of all tangible property to the final user is subject to tax unless the tangible property is specifically exempt in Section 423.3, Code of Iowa. The sale of services is exempt unless specifically enumerated in Section 423.1(6), Code of Iowa. With a few exceptions, items that are exempt from Sales Tax are also exempt from Use Tax.

The State Sales Tax was increased to 6.0% with one-sixth of the tax devoted to school infrastructure in 2008. With the increase in the State Sales Tax rate, the school infrastructure local option (SILO) Sales tax was repealed (this local option tax was initiated in HF 2282, Local Option Sales Tax for School Infrastructure Act of 1998). In addition to the State Sales Tax, with voter approval, local jurisdictions can impose a local option Sales Tax (LOST) of up to 1.0% (see HF 395, Local Option Sales Tax Act of 1985).

The Use Tax (Consumer and Retailer) rate was also increased to 6.0% in 2008, with one-sixth of the tax devoted to school infrastructure. The Motor Vehicle Use Tax remains at 5.0%. The Use Tax is not subject to LOST (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the Use Tax includes:

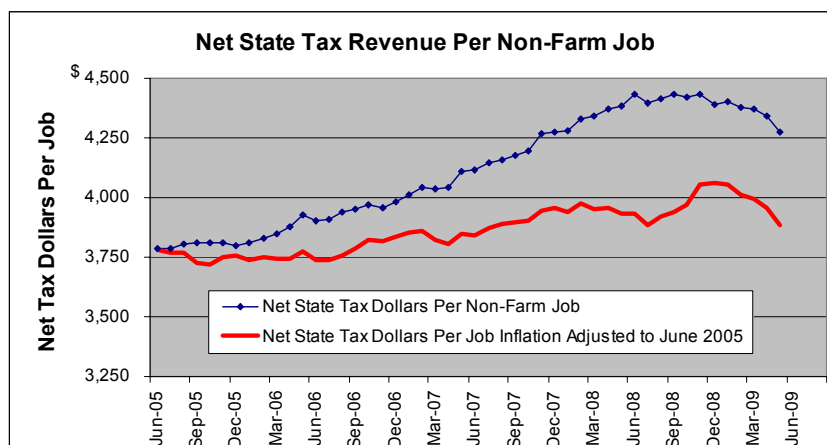
- Tax collected by out-of-state based firms making sales of tangible personal property or certain services purchased for use in Iowa (Retailer's Use Tax).
- Tax on goods or services purchased tax free by consumers and subsequently used in Iowa (Consumer's Use Tax).
- Tax collected by Iowa county treasurers or the Iowa Department of Transportation on vehicles subject to registration (Motor Vehicle Use Tax).

The Iowa Sales Tax was first imposed in 1934 in HF 1 (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The Sales Tax was made permanent in 1937 with the passage of SF 316 (Sales Tax Act). The Iowa Use Tax was enacted in 1937 (SF 317 – Use Tax Act) in conjunction with the permanent adoption of the Sales Tax at the 2.0% rate. The tax rates were increased to 2.5% in 1955, lowered to 2.0% in 1957, increased to 3.0% in 1967 and 4.0% in 1983. The rate was changed to 5.0% in 1992. During the 2008 Legislative Session, the SILO was repealed and replaced with the 1.0% point increase in the State Sales/Use Tax in HF 2663 (State Sales/Use Tax for School Infrastructure Act).

Retailers who sell tangible personal property or taxable services are responsible for collecting the State Sales Tax and any local option Sales Tax. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly or semi-monthly. State Sales Tax is deposited in the State General Fund. State Sales/Use Tax for school infrastructure and LOST are initially deposited to the State General Fund and are transferred to special funds near the end of the month. Disbursements to local entities imposing the tax are made monthly from the special funds.

Tax Revenue and Employment

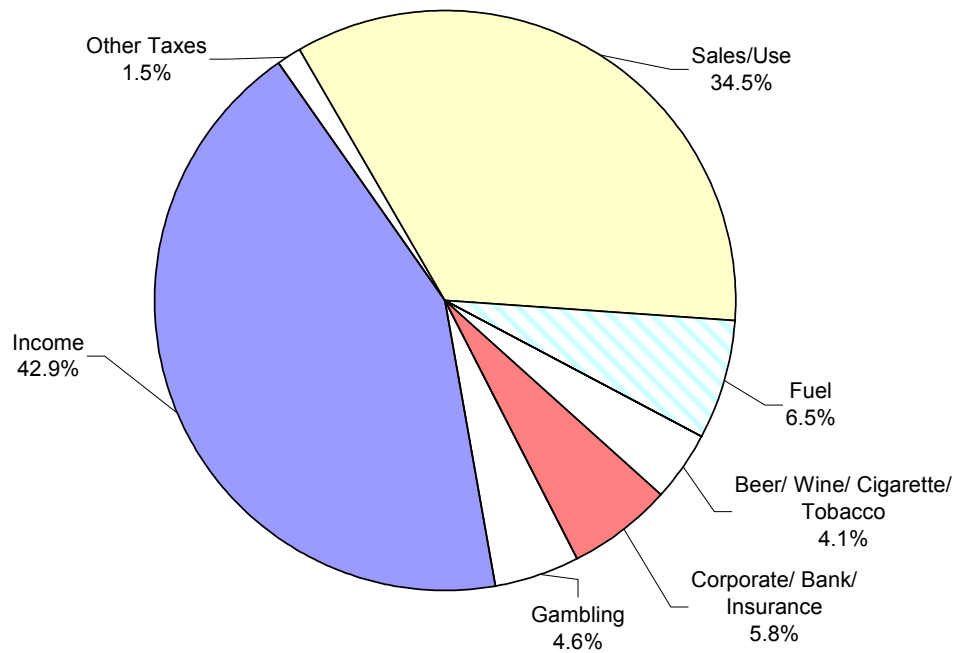
The average reading for Iowa non-farm employment over the 12 months ending May 2009 is 1,510,600, and net State tax receipts over the same 12 months totaled \$6.452 billion, or \$4,271 per non-farm job. This is \$487 (12.9%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 10.0%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 0.7% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending June 2009

Net Revenue = \$6.341 Billion

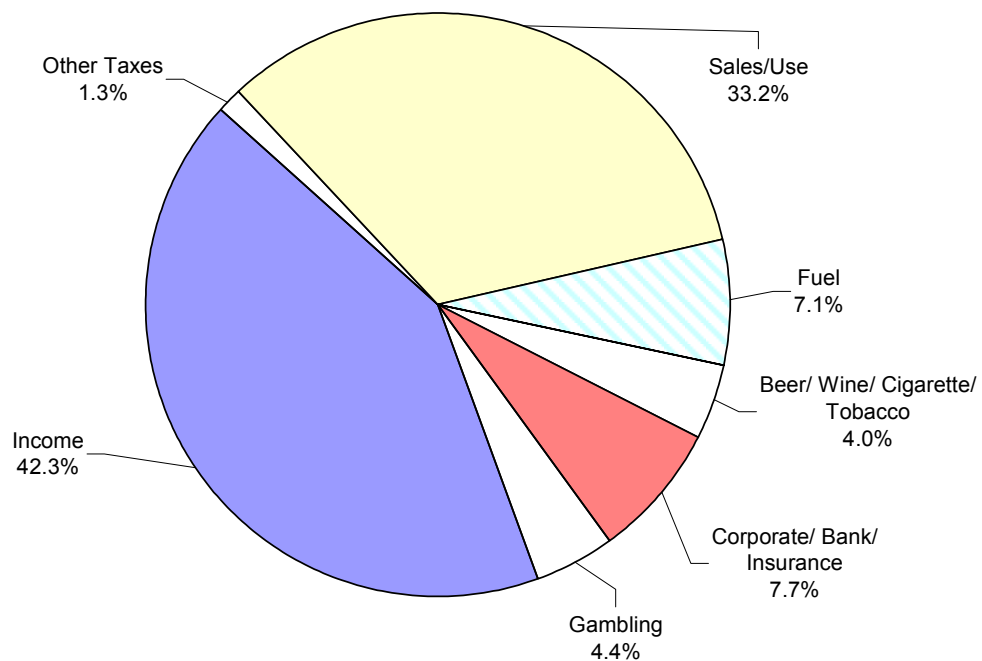
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending June 2008

Net Revenue = \$6.753 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of June 2008	Month of June 2009	June \$ Change	June % Change
Banking	\$ 34.2	\$ 28.7	\$ - 5.5	-16.1%	\$ 6.1	\$ 4.7	\$ - 1.4	-23.0%
Beer & Wine	20.7	20.9	0.2	1.0%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	250.2	238.2	- 12.0	-4.8%	23.4	20.0	- 3.4	-14.5%
Corporate Income	371.9	251.1	- 120.8	-32.5%	59.9	40.2	- 19.7	-32.9%
Fuel	477.2	412.7	- 64.5	-13.5%	68.8	44.1	- 24.7	-35.9%
Gambling	296.4	293.3	- 3.1	-1.0%	23.2	22.9	- 0.3	-1.3%
Individual Income	2,857.2	2,722.7	- 134.5	-4.7%	234.0	202.5	- 31.5	-13.5%
Inheritance	77.4	73.7	- 3.7	-4.8%	8.6	6.8	- 1.8	-20.9%
Insurance	111.7	88.4	- 23.3	-20.9%	26.9	15.4	- 11.5	-42.8%
Other Taxes	- 5.7	8.9	14.6	--	1.7	1.8	0.1	5.9%
Real Estate Transfer	17.5	14.8	- 2.7	-15.4%	1.3	1.0	- 0.3	-23.1%
Sales/Use	2,244.5	2,188.0	- 56.5	-2.5%	175.3	158.5	- 16.8	-9.6%
Total Net Taxes	\$ 6,753.2	\$ 6,341.4	\$ - 411.8	-6.1%	\$ 631.1	\$ 519.8	\$ - 111.3	-17.6%
Gross Tax & Refunds								
Gross Tax	\$ 7,470.6	\$ 7,577.9	\$ 107.3	1.4%	\$ 673.2	\$ 609.5	\$ - 63.7	-9.5%
Tax Refunds	\$ - 717.4	\$ - 1,236.5	\$ - 519.1	72.4%	\$ - 42.3	\$ - 89.7	\$ - 47.4	112.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,752.7	\$ 5,418.8	\$ - 333.9	-5.8%	\$ 512.3	\$ 432.4	\$ - 79.9	-15.6%
Road Use Tax Fund	\$ 739.7	\$ 671.8	\$ - 67.9	-9.2%	\$ 95.0	\$ 64.1	\$ - 30.9	-32.5%
Non-GF Gambling	\$ 234.6	\$ 231.4	\$ - 3.2	-1.4%	\$ 23.0	\$ 22.7	\$ - 0.3	-1.3%
Other State Funds	\$ 26.2	\$ 19.3	\$ - 6.9	-26.3%	\$ 0.7	\$ 0.7	\$ 0.0	0.0%
Local Option Taxes *	\$ 708.7	\$ 798.1	\$ 89.4	12.6%	\$ 54.7	\$ 68.0	\$ 13.3	24.3%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most individual income tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.